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RUEHMD/AMEMBASSY MADRID 2493  
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RUEHUL/AMEMBASSY SEOUL 1376  
RUEHSM/AMEMBASSY STOCKHOLM 1457  
RUEHTC/AMEMBASSY THE HAGUE 2634  
RUEHKO/AMEMBASSY TOKYO 2413  
RUEHVI/AMEMBASSY VIENNA 1647  
RUEHBS/USEU BRUSSELS 1863  
RUEHLU/AMEMBASSY LUANDA 0802  
RUEHBU/AMEMBASSY BUENOS AIRES 1333  
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RUEHPU/AMEMBASSY PORT AU PRINCE 0700  
RUEHGB/AMEMBASSY BAGHDAD 0543  
RUEHVN/AMEMBASSY VIENTIANE 0032  
RUEHPOD/AMEMBASSY PODGORICA 0001  
RUEHBW/AMEMBASSY BELGRADE 0724  
RUEHPL/AMEMBASSY PORT LOUIS 0829  
RUEHFN/AMEMBASSY FREETOWN 0430  
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RUEHPO/AMEMBASSY PARAMARIBO 0033

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SUBJECT: PARIS CLUB - DECEMBER 2006 TOUR D'HORIZON

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SUMMARY

1. (SBU) At the December 12-13 meeting of the Paris Club, creditors provided Haiti a debt restructuring based on its achievement of decision point under the Heavily Indebted Poor Countries (HIPC) initiative. This agreement consolidates around USD 69 million in debt, and will lead to the immediate cancellation of USD 7.2 million. The US will forgive 100% of debt service falling due between HIPC decision point and completion point, as long as Haiti performs satisfactorily on its IMF Poverty Reduction and Growth Facility (PRGF). In a surprising development, Angola has begun making significant arrears payments to its Paris Club creditors. Moreover, the country appears to be moving closer to reaching an agreement with the IMF on a Stand-By Arrangement (SBA). If an SBA

is approved, Angola may ask the Paris Club to forgive USD 1.8 billion in late interest. (Angola has no arrears and owes no late interest to the US.) Creditors agreed on a written response to a letter from Argentina expressing its desire to normalize relations. The response was rendered devoid of any substance by Italy, which continues to cite domestic sensitivities related to holdout bondholders. Based on preliminary indications from the authorities, and considering the positions of Paris Club creditors, it appears unlikely that Argentina's situation will be resolved in the near term. Other countries on the agenda included the Central African Republic, Iraq, Laos, Serbia Montenegro, Seychelles, Sierra Leone, Sudan, and Suriname. END SUMMARY.

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ANGOLA  
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¶2. (U) In a surprising development, Angola has gone well beyond its commitment to make a USD 100 million goodwill payment toward its Paris Club arrears and has begun making significant additional payments. Japan and Norway reported that all arrears have been cleared (excluding late interest), while several other countries said a large portion of their arrears have been cleared. Denmark, France, Spain, and Switzerland, on the other hand, have not received any payments beyond their share of the goodwill payment. Angola has also fulfilled its commitment to resume debt service on maturities falling due following a delay due to technical problems. The IMF said that, following a recent staff mission, an SBA is being considered at the presidential level and could be brought to the IMF executive board as early as February. Staff reports that the government has included in its 2007 budget USD 2.3 billion in payments to the Paris Club, an amount equal to total Paris Club

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arrears excluding late interest.

¶3. Although some creditors complained about unequal treatment, Paris Club Chairman Musca stressed the positive: Angola has gone well beyond its previous commitment to make a \$100 million payment and resume debt service; it appears to be on track to get an IMF program; and its unequal treatment of creditors is most likely due to technical shortcomings rather than a deliberate attempt to discriminate among creditors. The secretariat said it would follow up with the authorities on the latter point. In the meantime, the secretariat urged creditors not to apply payments received toward

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late interest, as requested by Angola and as previously agreed among creditors in the context of the 100 million dollar goodwill payment. Musca speculated that if an IMF program is approved and Angola comes to the Paris Club next year, the authorities will request forgiveness of USD 1.8 billion in late interest. (Angola has no arrears and owes no late interest to the US.)

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ARGENTINA  
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¶4. (SBU) Chairman Musca summarized his meeting with then Finance Secretary Mac Laughlin at last month's G-20 meeting in Melbourne.

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Musca told Mac Laughlin that any rescheduling in the Paris Club would require an IMF program, and that Argentina should consider clearing its arrears (USD 3.5 billion) in view of its USD 30 billion in reserves. Mac Laughlin responded that an IMF program is not possible, and that Argentina faced large external debt service payments in the next few years as a result of the commercial debt exchange. Musca inferred from the discussion that Argentina has in mind a rescheduling of its Paris Club obligations (which would be consistent with reports in the press), and that the government will not address the holdouts until after the October 2007 elections (though Mac Laughlin did not state this explicitly).

¶5. (SBU) Reaction to Musca's report was mixed. Germany, apparently eager to extend new export credit financing to Argentina, said the Paris Club needed to remain open to creative solutions. The UK commented that a Paris Club solution would be difficult, and that it

would be important for creditors to remain united in withholding new financing. Japan said its stance had not changed: Argentina should clear arrears immediately, and the Paris Club should not contemplate any rescheduling without an IMF program. Spain said it continues to seek a bilateral settlement with respect to its USD 835 million crisis loan. Italy stressed that a resolution of the holdout problem must remain part of the Paris Club discussion, even if the Paris Club is not directly concerned. At Germany's request, the secretariat drafted a formal response to

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Mac Laughlin's letter of November 9. Italy gutted the letter of any substance and insisted on an oblique reference to the holdouts.

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CENTRAL AFRICAN REPUBLIC  
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¶6. (U) Next week, the IMF executive board will consider a new three-year PRGF for CAR, for which the Paris Club provided financing assurances last month. A preliminary HIPC document will be circulated in January. The secretariat will invite CAR to come to the Paris Club in March for negotiations. (The Paris Club does not meet in February.) The IMF said CAR could reach HIPC decision point in the third quarter of 2007, at the time of the first review of the PRGF, assuming satisfactory performance and agreement on completion point conditions.

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HAITI  
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¶7. (U) Creditors provided a HIPC decision point treatment. Commercial debt service falling due during the period of the PRGF will be canceled at a level of 90% (taking into consideration previous cancellation granted by the Paris Club), with the balance rescheduled over 23 years, with a 6-year grace period. Official development assistance (ODA) debt service will be rescheduled over 40 years, with a 16-year grace period. Arrears on commercial debt that had not been rescheduled previously will be canceled at a level of 67%; all other arrears will be rescheduled. Creditors also agreed to capitalize interest payments falling due during the PRGF, and urged Haiti to seek comparable treatment from Taiwan, its principal non-Paris Club creditor. As a result of the agreement, Haiti's debt service during the period of the PRGF will fall from approximately USD 8 million per year to essentially zero. Per its HIPC policy, the US will go beyond the requirements of the Paris Club agreement and forgive 100% of the debt service falling due during this period, provided Haiti performs satisfactorily on its PRGF.

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IRAQ  
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¶8. (U) The US asked Germany to provide more information about its attempt to collect 100% of post-1990 pre-cutoff date claims on Iraq. Germany said it did not have any information on hand and would look into the matter. Russia, meanwhile, said it had nothing new to report on the status of its bilateral agreement. Negotiations have been completed, but final signature of the agreement continues to await "legal authority." (Russia remains the only Paris Club

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creditor that has yet to conclude its bilateral agreement implementing the December 2004 agreed minute.)

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LAOS  
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¶9. (U) In response to an inquiry from Norway, the IMF clarified that, for the time being, HIPC was an open-ended option for Laos. The IMF added that, at the request of executive directors, members of its staff are working on an exit strategy for countries such as Laos that are HIPC eligible but not interested in availing themselves of HIPC debt relief.

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SERBIA AND MONTENEGRO  
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¶10. (SBU) Some creditors (Netherlands, Norway, Japan) continue to raise concerns about the implications of the decision by Serbia and Montenegro to allocate debt between themselves according to the final beneficiary principle. In a recent letter to the Paris Club, the Serbian authorities stated that the two sides had reached an amicable agreement on the partition of the debt and were eager to conclude new bilateral agreements with Paris Club creditors. The Netherlands, Norway, and Japan insisted that the secretariat contact the authorities by telephone to reiterate the Paris Club's position, as articulated in a November 13 letter, that bilateral agreements between Paris Club creditors and the two countries must follow the debtor/guarantor principle rather than the final beneficiary principle, unless otherwise specified by the creditor. The US and France are prepared to negotiate bilateral agreements with Serbia and Montenegro according to the final beneficiary principle.

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SEYCHELLES  
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¶11. (U) The IMF said the authorities are keen to normalize relations with Paris Club creditors and have expressed interest in a possible IMF program. The authorities will come to Washington in January for further discussions with IMF staff. The secretariat said the Seychelles' anticipated 4 million euro arrears payment should take place in coming days. (The US is not a creditor.)

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SIERRA LEONE  
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¶12. (U) Sierra Leone is expected to reach completion point this month. Negotiations in the Paris Club are tentatively scheduled for January.

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SUDAN  
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¶13. (U) The secretariat summarized the results of a recent data call. As of October 2006, Sudan owed the Paris Club USD 10.2 billion, of which USD 9.9 billion is in arrears (including USD 5.9 billion in late interest). France and the US are the two largest creditors with USD 2.0 billion each in claims, followed by the UK (USD 1.1 billion) and Austria (USD 1.0 billion). The IMF said Sudan had contracted USD 670 million in non-concessional loans in the first ten months of 2006 (58% from India, 24% from China), compared to a limit of USD 700 million under its IMF Staff Monitored Program (SMP).

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SURINAME  
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¶14. (SBU) The US reported that Suriname had not made any payments in almost four years and asked if other creditors were in a similar situation. France and the Netherlands said Suriname was current on its debt. Brazil and Denmark, on the other hand, reported longstanding arrears. Japan said arrears on short-term debt were cleared earlier this year. Italy and Germany revealed that they had recently concluded bilateral debt agreements with Suriname (without informing the club). When asked by the US whether this unequal treatment of creditors constituted a breach of solidarity, the secretariat said the answer depended on the outlook for an eventual

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treatment of Suriname's debt in the Paris Club. If there is no prospect for a Paris Club treatment, then creditors have more flexibility to pursue their claims bilaterally. If, on the other hand, a Paris Club treatment remains a possibility, then creditors should respect solidarity and seek a multilateral solution. (Note: In Suriname's case, an eventual Paris Club treatment cannot be ruled out, although the country does not have an IMF program at the present time.) The secretariat will draft a letter to the authorities urging them to clear arrears and to treat Paris Club

creditors equally.

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METHODOLOGY  
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¶15. The secretariat noted that out of 18 countries having reached completion point, 12 have failed to fulfill the requirement, as specified in the agreed minutes, to report to the Paris Club on progress obtaining comparable treatment from non-Paris Club creditors. Creditors agreed on a letter, to be sent to all 12 countries, reminding them of this requirement and offering the

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assistance of the secretariat. In a continuing effort to promote awareness of the Debt Sustainability Framework (DSF), the IMF and World Bank summarized a recent joint staff paper on ways to improve the rigor, quality, and effectiveness of debt sustainability analyses.

The secretariat called on volunteers to participate in a working group that will meet on the margins of future Paris Club sessions to draft a glossary of Paris Club terms, which may be posted to the Paris Club website.

HOFMANN